monetary reform. But the response to date falls short of these expectations. As noted above, just 12 countries have ratified this amendment, and the United States and the United Kingdom are the only two that have contributed a significant degree of voting strength toward acceptance. Only 39 percent of the votes are in hand; 80 percent are needed. Excessive delay in ratifying the amendment would place the importance and validity of international monetary reform in doubt. Delay could be used as an excuse for continued failure to try to solve the problems of adjustment and confidence. Consequently, the subcommittee urges that the U.S. Governor take all appropriate action to encourage ratification by the end of 1968.

The subcommittee also hopes that, immediately after ratification of the SDR amendment, the Managing Director of the Fund will canvass the members in an effort to obtain approval from nations possessing the 85 percent of the total voting strength required to permit distribution. We believe that a poll of the member nations would have a constructive outcome. Nations both favoring and opposing the use of this new reserve asset would be identified, and the objections of any minority opposing immediate activation could then be discussed.

The subcommittee recognizes that some nations will have objections to the distribution of SDR's as long as U.S. deficits persist at the current level. We also note that Secretary of the Treasury Fowler has repeatedly emphasized the need for reducing U.S. net expenditures abroad. The Joint Economic Committee has vigorously supported appropriate action to bring the external accounts of this Nation into balance. In its last annual report, the committee asserted that government expenditures abroad, which are primarily military outlays ($4.25 billion annually), constitute "the root of our balance-of-payments difficulties" and that "the drain of such [military] expenditures on our reserve position must be terminated quickly."

We reaffirm this stand. The foreign exchange costs of military spending must be drastically curtailed, both to strengthen our balance of payments and to remove the block that U.S. deficits pose to international monetary cooperation and, in particular, to the activation of SDR's.

On the other hand, foreign officials would be unrealistic to insist on total elimination of U.S. deficits before agreeing to the distribution of SDR's. Activation of the SDR facility can be expected both to increase the pressure on this country for elimination of our deficit and to help facilitate an additional reduction in U.S. net external expenditures. Allocation of SDR's would belie the argument that, since gold reserves are no longer expanding, dollar deficits reflect, in part, desired increases in reserve stocks. Moreover, the availability of SDR's would decrease the likelihood that fiscal and monetary restraints applied in this country to slow inflation and to curtail our appetite for imports would be countered by similar actions abroad. Thus, a reasonable reduction in U.S. deficits should be sufficient to permit distribution of Special Drawing Rights.

We are confident that the U.S. Governor will persist in his efforts to secure ratification of the SDR amendment at the earliest possible date. The subcommittee also urges the present U.S. Governor to initiate, and subsequent Governors to expedite, three new moves—contained in Recommendations 2, 3, and 4—to continue the process of transforming the international monetary system.